

ESO 1983

DISCUSSION GUIDE FOR 1993 LIVESTOCK OUTLOOK

A Discussion Guide for County Agents

prepared by
Allan E. Lines
Extension Economist
Department of Agricultural Economics and Rural Sociology
The Ohio State University

November 1992

SLIDE 1: MEAT CONSUMPTION IN THE U.S.

- A. The trend in beef consumption has been down since 1986.
 - 1. 1982: 76.4 pounds/person.
 - 2. 1992: 67.3 pounds/person.
 - 3. Note that all of the drop occurred after 1986.
 - 4. 1986-1992: -11%.
- B. Pork consumption fell early in the 1980s, held constant, and fell in '88.
 - 1. 1982: 59.5 pounds/person.
 - 2. 1992: 53.5 pounds/person.
 - 3. 1986-1992: -14%.
- C. Chicken consumption has grown substantially since 1980.
 - 1. 1982: 52.0 pounds/person.
 - 2. 1992: 78.0 pounds/person.
 - 3. 1982-1992: +50%.
 - 4. Chicken consumption exceeded beef consumption for the first time in U.S. history in 1990 and the gap is expected to widen.
- D. Turkey consumption has grown even more rapidly than chicken consumption.
 - 1. 1982: 10.5 pounds/person
 - 2. 1992: 17.9 pounds/person.

3. 1982-1992: +70%.

E. Consumption changes reflect changes in both consumer preference and relative prices. How much of each is a key concern.

SLIDE 2: U.S. MEAT, POULTRY AND FISH CONSUMPTION

On a retail boneless trimmed basis the numbers are different, but the story is the same.

1. Not until 1993 does poultry, all poultry, equal beef consumption.
2. Pork has been steady for a decade.
3. Fish and shellfish consumption not growing as rapidly as thought.

SLIDE 3: DEMAND FOR BEEF IN THE U.S.

- A. A significant change in the demand for beef apparently occurred in 1987.
1. Health concerns of consumers.
 2. Declining relative prices for chicken and turkey.
- B. The change in demand reflects both a downward shift and a change in slope.
1. 1980-1986: inelastic demand, which implies decreasing revenue as production increases.

2. 1987-1992: elastic demand, which implies increasing revenue as production increases. Income and supply number confirm this.

SLIDE 4: DEMAND FOR PORK IN THE U.S.

- A. If 1982 and 1983 are considered transition years, then the demand for pork appears to have been stable since 1984.
- B. Many observers have suggested that pork demand increased in 1992. However, there is no solid evidence that this occurred.
 1. Retail price for pork was down 5%.
 2. But, consumption also increased.
 3. Hence, 1992 is well within the range of the demand relationship in place since 1984.

SLIDE 5: DEMAND FOR BROILERS IN THE U.S.

- A. The demand for broilers appears to have shifted during 1987-89.
--consumers willing to eat more at same real price.
- B. A key point is the ability of broiler producers to continually supply larger quantities at lower and lower real prices.

SLIDE 6: DEMAND FOR TURKEY IN THE U.S.

- A. The demand for turkey also has been stable since 1980.

SLIDE 7: U.S. MEAT EXPORTS

- A. Beef exports have grown enormously since 1982.
 - 1. 1982: 240 million pounds.
 - 2. 1992: 1335 million pounds.
 - 3. 1982-1992: +456%.
 - 4. 1992: +12%.
 - 5. In 1992, exports represented 6% of U.S. commercial beef production.
 - 6. Major buyers: 1991
 - a. No. 1: Japan, 45% of U.S. exports.
 - b. No. 2: Canada, 22%.
 - c. No. 3: Mexico, 15% (up in '92).
- B. Beef imports in 1992: 2410 million pounds.
- C. Pork exports have been up since 1982.
 - 1. 1982: 220 million pounds.
 - 2. 1992: 405 million pounds.

3. 1988-1992: +84%
 4. 1992: +38%.
 5. In 1992, exports represented 2.3% of U.S. commercial pork production.
 6. Major buyers: 1991
 - a. No. 1: Japan, 43% of U.S. exports.
 - b. No. 2: Mexico, 29%.
- D. Pork imports in 1992: 660 million pounds.
- E. Chicken exports have grown substantially since 1980.
1. 1982: 525 million pounds.
 2. 1992: 1464 million pounds.
 3. 1982-1992: +179%.
 4. 1992: +7%.
 5. In 1992, exports represented 6.9% of U.S. commercial chicken production.
 6. Major buyers: 1991
 - a. No. 1: Japan, 22% of U.S. exports.
 - b. No. 2: Hong Kong.
 - c. Soviet Union also continues to be a large buyer.

- F. No chicken was imported into the U.S. in 1992.
- G. Turkey exports have increased since 1982.
 - 1. 1982: 50 million pounds.
 - 2. 1992: 144 million pounds.
 - 3. 1982-1992: +188%.
 - 4. 1992: +40%.
 - 5. In 1992, exports represented 3% of U.S. commercial turkey production.
- H. No turkey was imported into the U.S. in 1992.

SLIDE 8: U.S. INVENTORY OF ALL CATTLE AND CALVES, JANUARY 1

- A. Long-term decline in cattle numbers has been dramatic.
 - 1. 1975: 132 million head.
 - 2. 1992: 101 million head.
- B. January 1, 1993 survey is expected to show an inventory of 102 million head, up 1%.
- C. Modest growth rate is surprising given the positive returns cow-calf producers have earned for the last six years.

- D. Three factors may explain the recent conservatism of the cattle industry.
1. Uncertainty regarding the demand for beef.
 2. Cow-calf producers' memory of large losses experienced in the early and mid-1980s.
 3. The Tax Reform Act of 1986 reduced the incentives to expand through the elimination of the investment tax credit and the capital gains exclusion.
- E. Conservatism is ending.
1. January 1, 1994 survey expected to find 103 million head.
 2. Further increases at least through '96; 104 million head, up 3% from '92.

SLIDE 9: COMMERCIAL BEEF PRODUCTION

- A. Given the growing size of the cattle herd, beef production is expected to increase beginning second quarter of 1993.
- B. Production could be up 1% in 1993 as increased cattle on feed begin coming to market.

SLIDE 10: FED CATTLE PRICE, OMAHA

- A. Prices remained strong throughout 1990.
- B. In 1991 prices declined sharply between April and August.
- C. Prices recovered this spring to the \$77 level, but retreated to \$74 by July and have recovered to \$75.

SLIDE 11: FORECASTS

- 1. 1992IV: \$73-75/cwt.
- 2. 1993I: \$72-74/cwt.
- 3. 1993II: \$75-77/cwt.

SLIDE 12: FEEDER STEER PRICE, OKLAHOMA

- A. Feeder cattle prices rose rapidly to near \$1/lb. in April of 1991. This was driven by three factors:
 - 1. Record fed cattle prices.
 - 2. Modest feed prices.
 - 3. Good forage and pasture conditions.
- B. However, the high prices were unsustainable, with breakeven steer prices in the low-to-mid-80s. Price fell by \$15 per cwt. by December.
- C. Prices have risen \$4 per cwt. since January.

- D. Feeder cattle prices are not expected to return to historically high levels in 1993.
- E. Fundamentals are sound for feeder cattle prices in 1993.
 - 1. Supply of feeder cattle is expected to be up somewhat.
 - 2. Good fed cattle prices.
 - 3. Moderate feed costs.
- F. Prices in the first half of 1993 are expected to range in the mid-to-upper eighties.

SLIDE 13: RETAIL MEAT PRICES

- A. Beef has leveled off.
- B. Pork is declining.
- C. Poultry relatively steady.
- D. Growing gap, particularly between beef and poultry.
- E. Consumer shifting to less expensive meat.

SLIDE 14: BARROW AND GILT PRICE, 7 MARKET AVERAGE

- A. Hog prices have decreased rapidly from mid-1990 to beginning 1992.
- B. Prices increased 1st half of 1992, and declined 2nd half.
- C. Hog producers have expanded production, despite lower prices.

SLIDE 15: COMMERCIAL PORK PRODUCTION

- A. Producers finally responded to profit, 1992 production up 8%.
- B. Lower prices have not stopped production increase.
- C. 1993 production expected up each quarter from 1992.

SLIDE 16: HOG-CORN PRICE RATIO, OMAHA

- A. Expansion by hog producers is not warranted, given weak profit signals since mid-1991.
- B. An indicator of hog production profits is the hog-corn ratio.
 - 1. Traditional break-even ratio is 20:1.
 - 2. The ratio at or near 16 last winter should have triggered a cutback.
It didn't.
 - 3. Lower corn prices this late summer and fall and steady hog prices caused the recent increase.

- C. In previous hog cycles, hog producers have not expanded production substantially until the hog-corn price ratio exceeded 24:1.
- D. Expansion is now occurring at a 20:1 ratio.

SLIDE 17: ESTIMATED FARROW-TO-FINISH RETURNS

- A. Hog price cycle very evident.
- B. '92 was not a period of loss as expected.

SLIDE 18: FORECASTS

- A. Forecasts based on inventory and pig-crops reported in September.
 - 1. Production up 3% next year.
 - 2. Fourth quarter growth slows to 1%.
- B. Increased production will depress prices.
 - 1. Fourth quarter 1993 could dip to \$38.
 - 2. Annual price \$1-2 lower next year.

SLIDE 19: GROWTH OF BROILER PRODUCTION IN THE U.S.

- A. Since the first quarter of 1989, broiler production has grown at an average rate of 7 percent per quarter.
- B. There has been considerable variation in the growth rate.
 - 1. Increased growth rate in 1989 due to decreasing feed costs.
 - 2. Growth rate slowed in 1992 as feed price rose and profits moderated.

SLIDE 20: BROILER PRODUCTION RETURN

- A. The return to broiler production in the U.S. has been negative only one quarter since the beginning of 1987.
- B. Returns averaged 6 cents per pound over 1991 - 1992, down from 9 cents the previous 2 years.
- C. Given the lower returns in 1992, broiler production in 1993 is expected to be up only 4%. This is compared to an increase of 5% in 1992.

SLIDE 21: GROWTH OF TURKEY PRODUCTION IN THE U.S.

- A. Since the first quarter of 1989, turkey production has grown at an average rate of 8 percent per quarter.
- B. There has been considerable variation in the growth rate.
 - 1. Increase in 1989 caused by lower feed price.
 - 2. Growth in two quarters exceeded 15%.
 - 3. Growth rate slowed in 1990 - 1992 as profits moderated; 9% in 1990; 5% in 1991.

SLIDE 22: TURKEY PRODUCTION RETURN

- A. In contrast to broilers, turkey production returns averaged -1 cent per pound over 1989:1 - 1992:3.
- B. Given that production increased substantially over the same period, this raises questions about the accuracy of USDA estimates of turkey returns.
- C. 1992 turkey production was up 5%. Production in 1993 is expected to grow at a rate of 2%.

SLIDE 23: U.S. SUPPLY FACTORS

- A. Two factors determine total supply: Cows numbers and milk production per cow.
- B. Number of cows.
 - 1. In 1991 broke ground for the first time with less than 10 million cows.
 - 2. Decline in cow numbers have generally averaged about one percent per year.
 - 3. Decline in cow numbers in 1991 averaged 1.5 percent, higher than average and slightly higher than expected at this time last year.
 - 4. A similar size decline is expected for 1993.
 - 5. In general, above average declines would reduce supply of milk.
- C. Milk production per cow.
 - 1. However, milk production per cow has increased more than expected.
 - 2. Per cow milk production increases generally average between 300 and 400 pounds per year.
 - 3. Projections are for an average of 15,350 pounds of milk per cow in 1992, up 3.25 percent or 483 pounds from last year. This milk increase is higher than expected.

4. Much of the unexpected production gain occurred during the summer. Reasons given for the higher per cow milk increase include a cool summer and increased forage quality.
5. Looking for average to above average increase during 1993.

SLIDE 24: U.S. PRODUCTION AND DEMAND

- A. Total milk production. Total milk production expected to average 151.1 billion pounds in 1992, higher than expected because of per cow production increases.
- B. Commercial use
 1. Commercial use increased in 1992, however, not as much as hoped.
 2. Recession during 1991 led to low increases in use. The lingering recession caused a lower increase during 1992.
 3. Questions: Will the recession continue into 1993, thus dampening demand for dairy products?

SLIDE 25: MINNESOTA AND WISCONSIN PRICE SERIES

A. Prices for 1992.

1. During 1992, the M-W price declined throughout the first part of the year, hitting a low of \$10.98 per cwt. in March. Between March and July increased to \$12.59 per cwt.
2. Many individuals believe that \$12.59 will be the peak for the year. Reasons for this relatively early peak are higher than expected milk production levels and lower than expected consumer demand.

B. Projections for 1992 and 1993.

1. All milk price for the U.S. will average about \$13.10 per cwt. during 1992, up \$.86 from the \$12.24 average during 1991.
2. Producer prices will begin to decline this fall.
3. Projections for 1993 are that the M-W price will fall into spring, perhaps hitting a low of \$10.50 by March. The M-W price could hit a high of \$12.80 per cwt. in fall of 1993, causing the average M-W price for 1993 to be about \$11.40 per cwt.
4. This suggests that milk prices farmers will receive will be about \$.80 more for milk in 1992 than in 1991. Milk prices in 1993 may be about \$.30 per cwt. lower in 1993 than in 1992.

5. Note the above projections are tentative. Much depends on the economy and milk production. Experiences during the late 1980s and early 1990s suggest that prices are volatile.

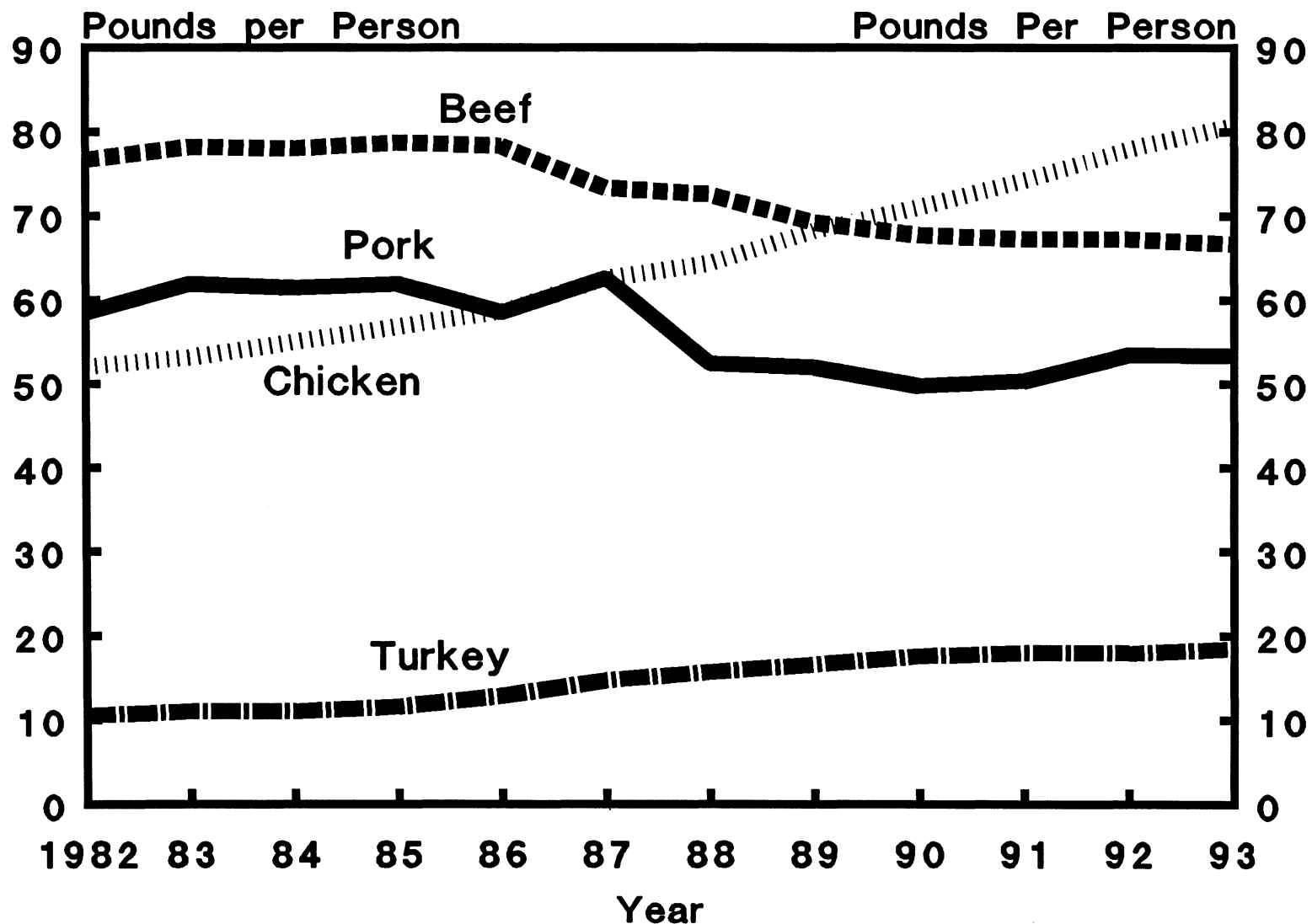
C. Support levels.

1. Note that support prices have remained constant.
2. Likely to remain constant until 1995.

SLIDE 26: U.S. MILK-TO-FEED PRICE RATIO

- A. Milk-to-feed price ratio generally is a good indicator of changes in profitability.
- B. The milk-to-feed price ratio for 1992 should average about 1.68, close to the average for 1985 through 1991. Dairy profits for 1992 should be about average.
- C. During 1992, grain and concentrate prices generally declined. If these prices stay at their current levels or decline further, profitability in 1993 could be higher than 1992.

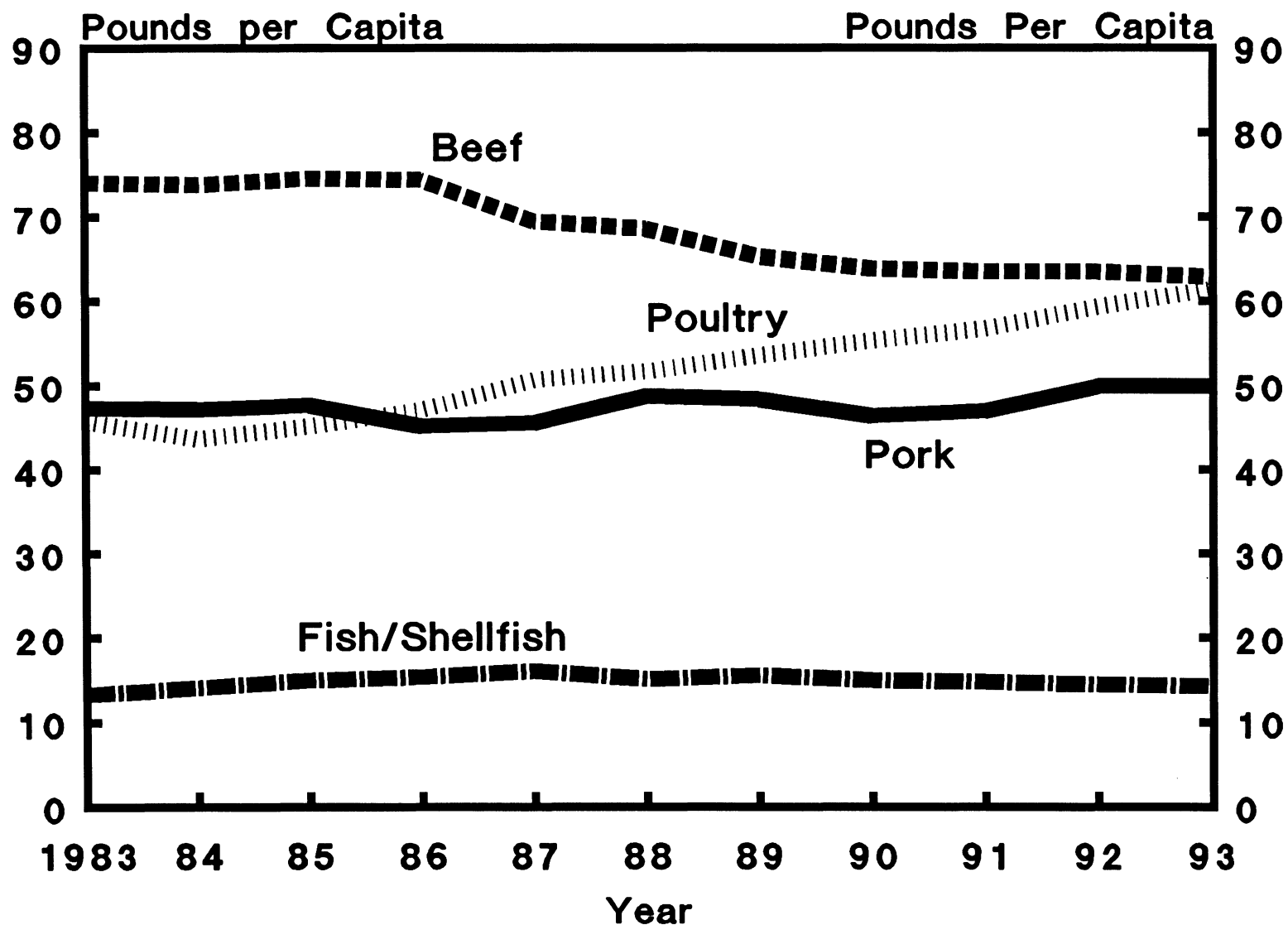
MEAT CONSUMPTION IN THE U.S.



1992/1993 Estimated/Projected

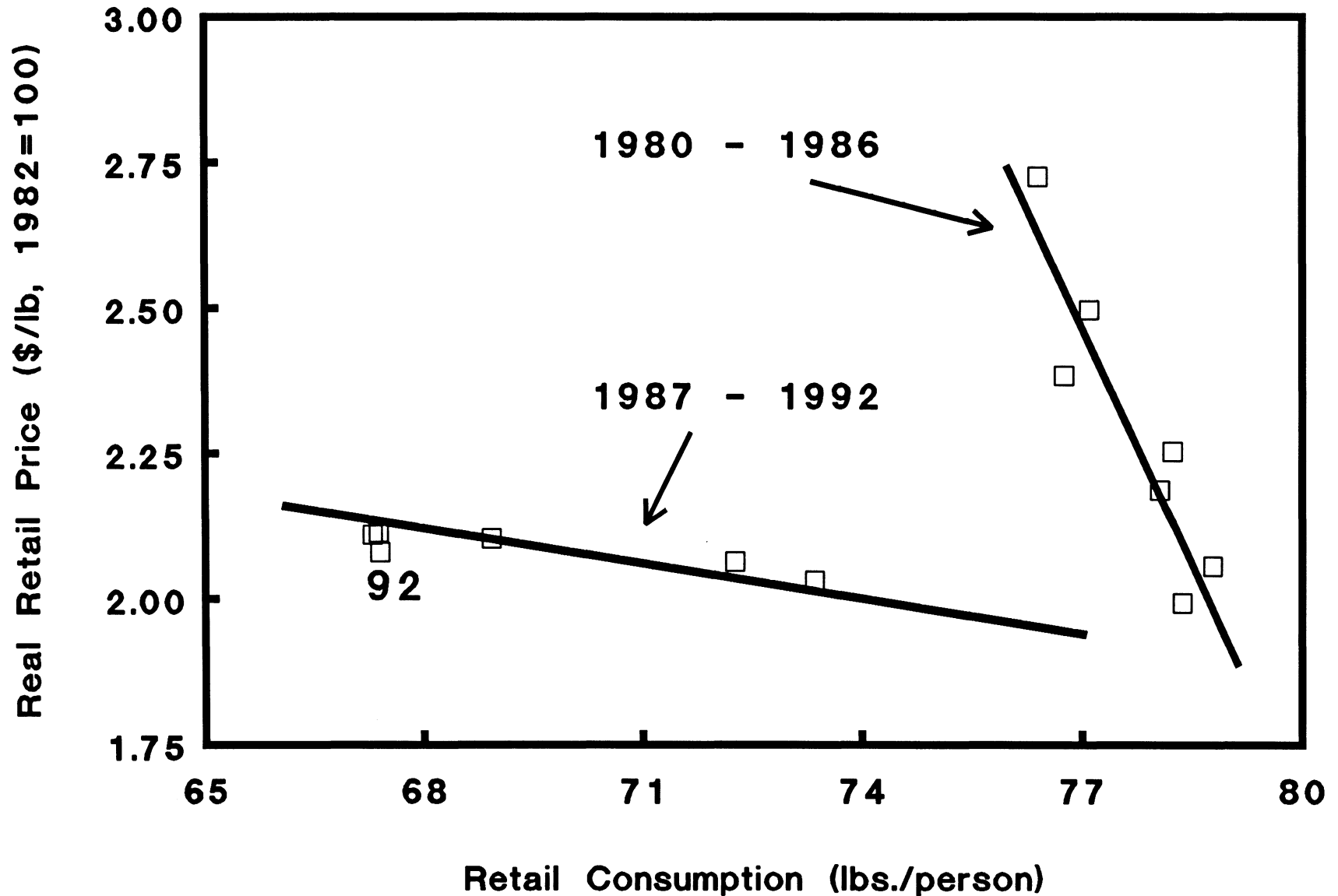
U.S. MEAT, POULTRY AND FISH CONSUMPTION

RETAIL BONELESS TRIMMED WEIGHT

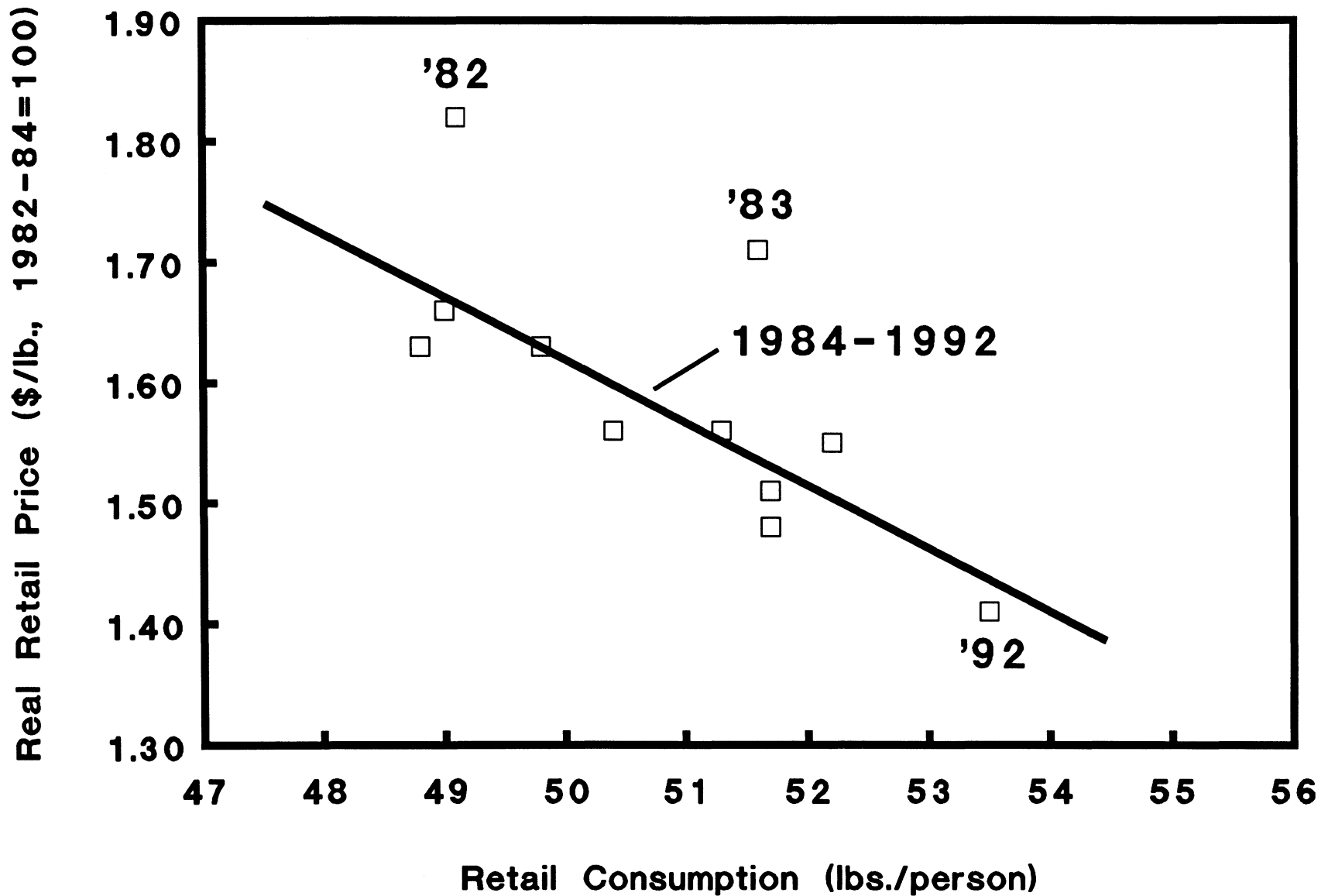


1992/1993 Estimated/Projected

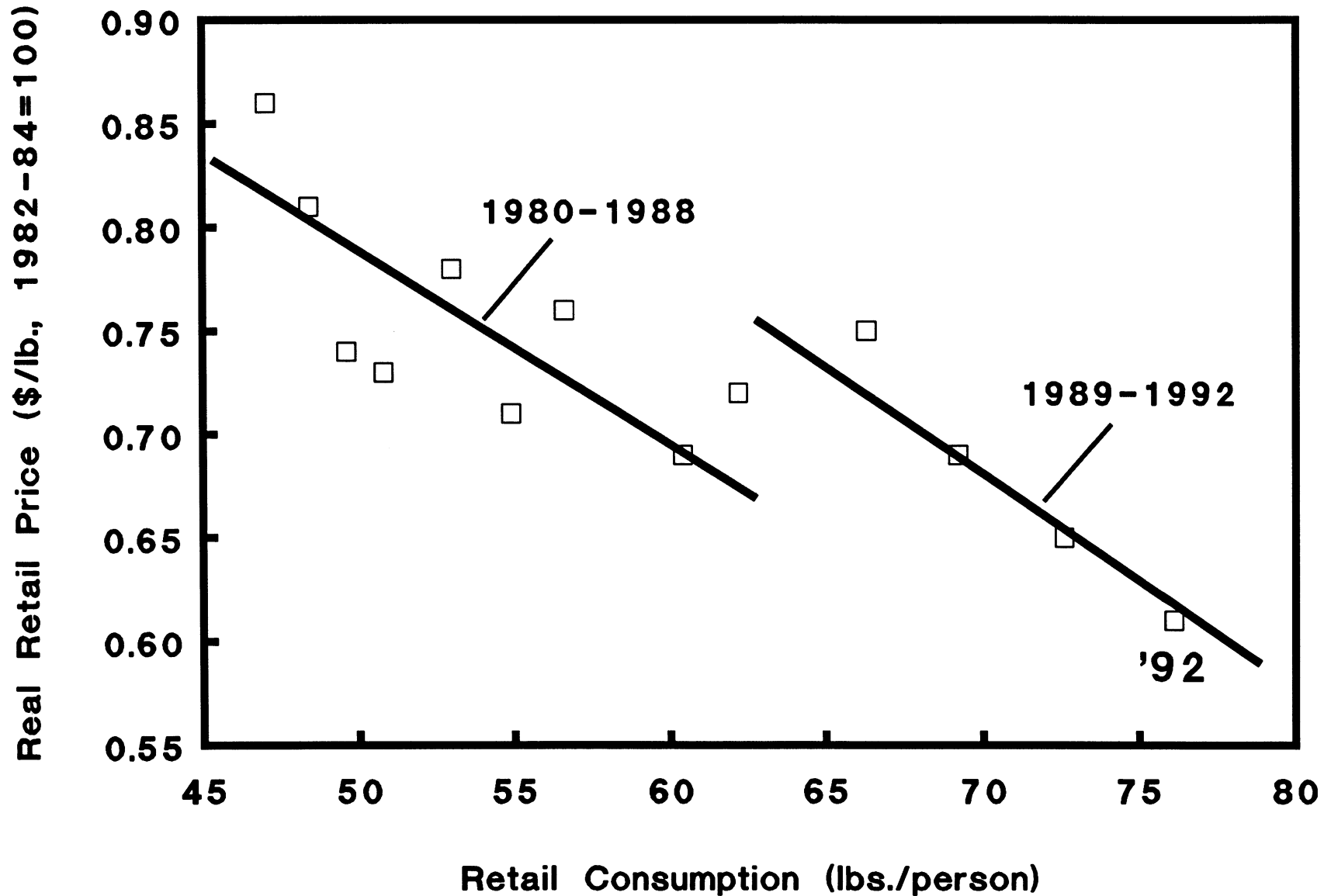
DEMAND FOR BEEF IN THE U.S.



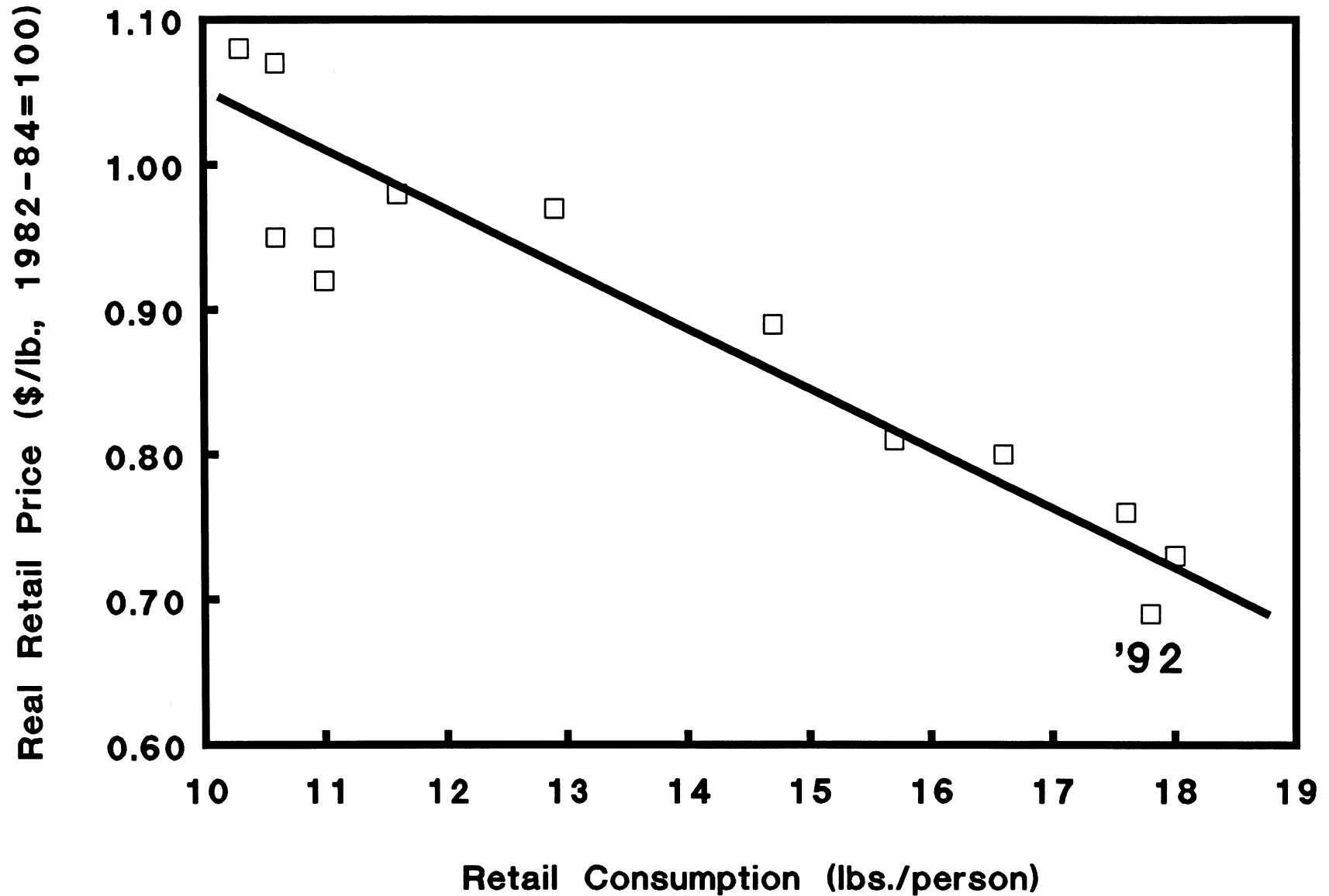
DEMAND FOR PORK IN THE U.S.



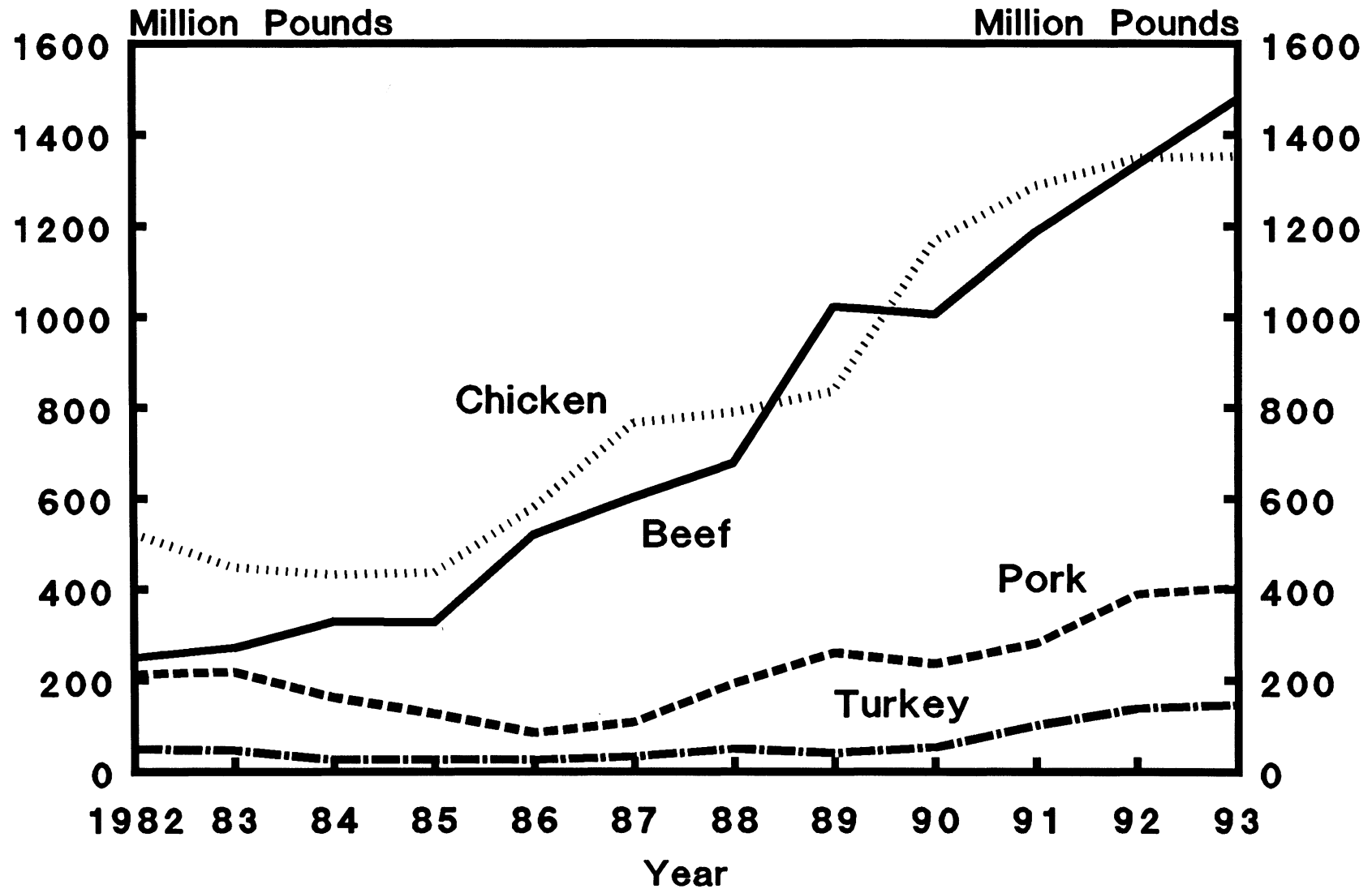
DEMAND FOR BROILERS IN THE U.S.



DEMAND FOR TURKEY IN THE U.S.

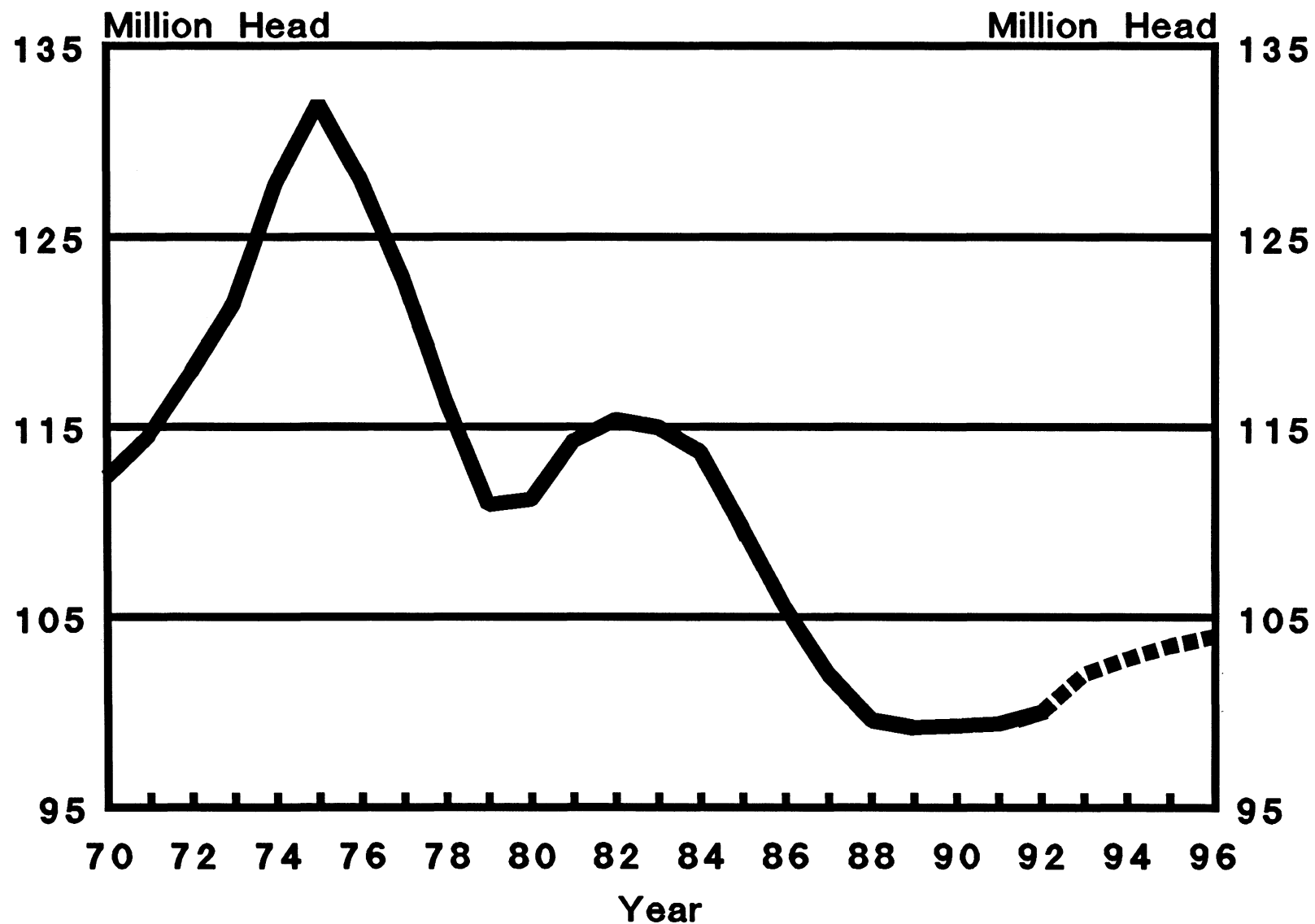


U.S. MEAT EXPORTS



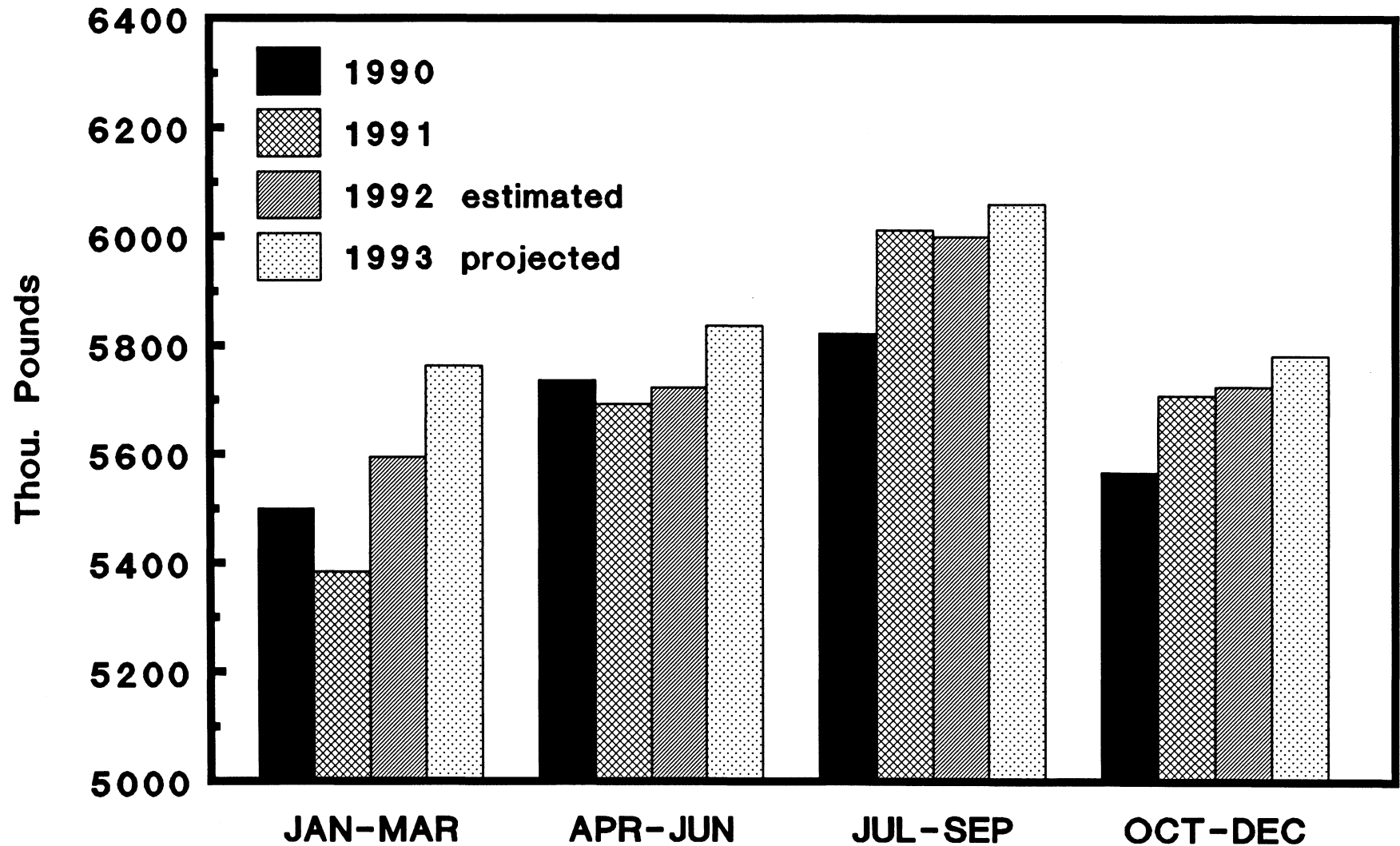
1992/1993 Estimated/Projected

U.S. INVENTORY OF ALL CATTLE AND CALVES, January 1

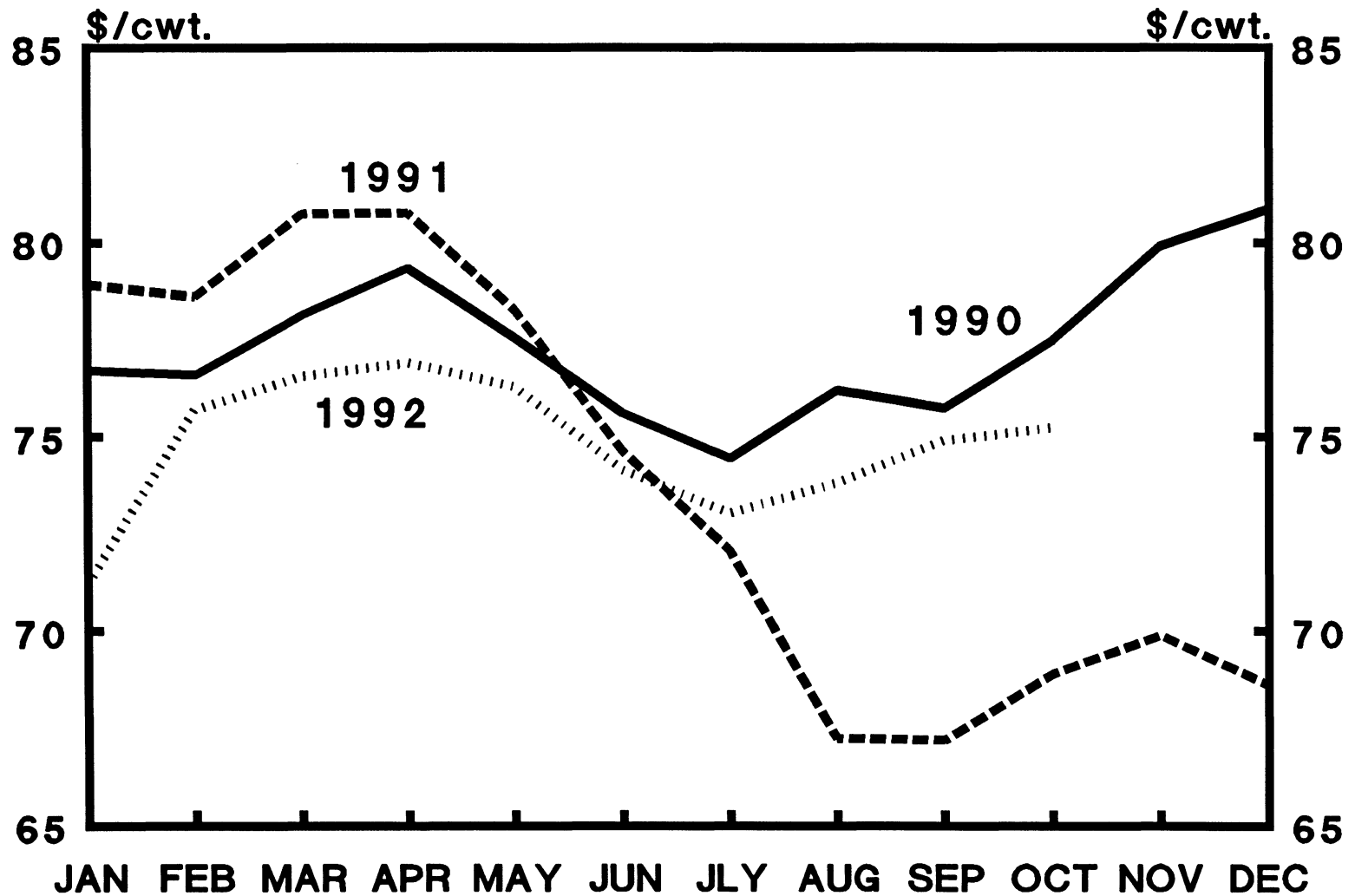


1993-96 Projected

COMMERCIAL BEEF PRODUCTION QUARTERLY



FED CATTLE PRICE, OMAHA CHOICE, 1000-1100 LBS.

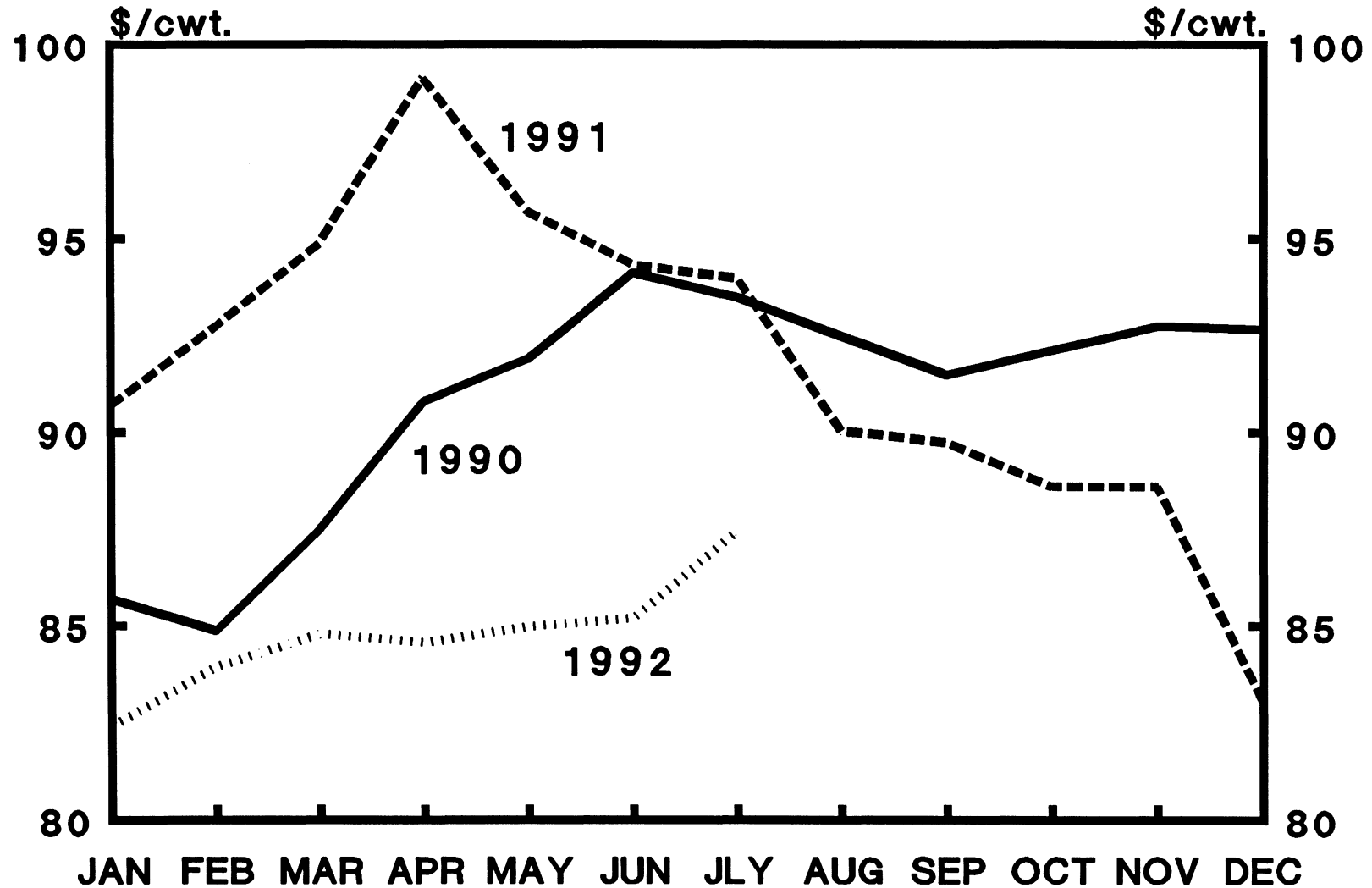


FORECASTS

	Beef Production	Fat Cattle Price/cwt
1992		
IV	N/C	\$73-75
Year	+ 1%	\$74-76
1993		
I	+ 3%	\$70-73
II	+ 2%	\$72-75
III	+ 1%	\$70-73
IV	+ 1%	\$69-72
Year	+ 2%	\$70-73

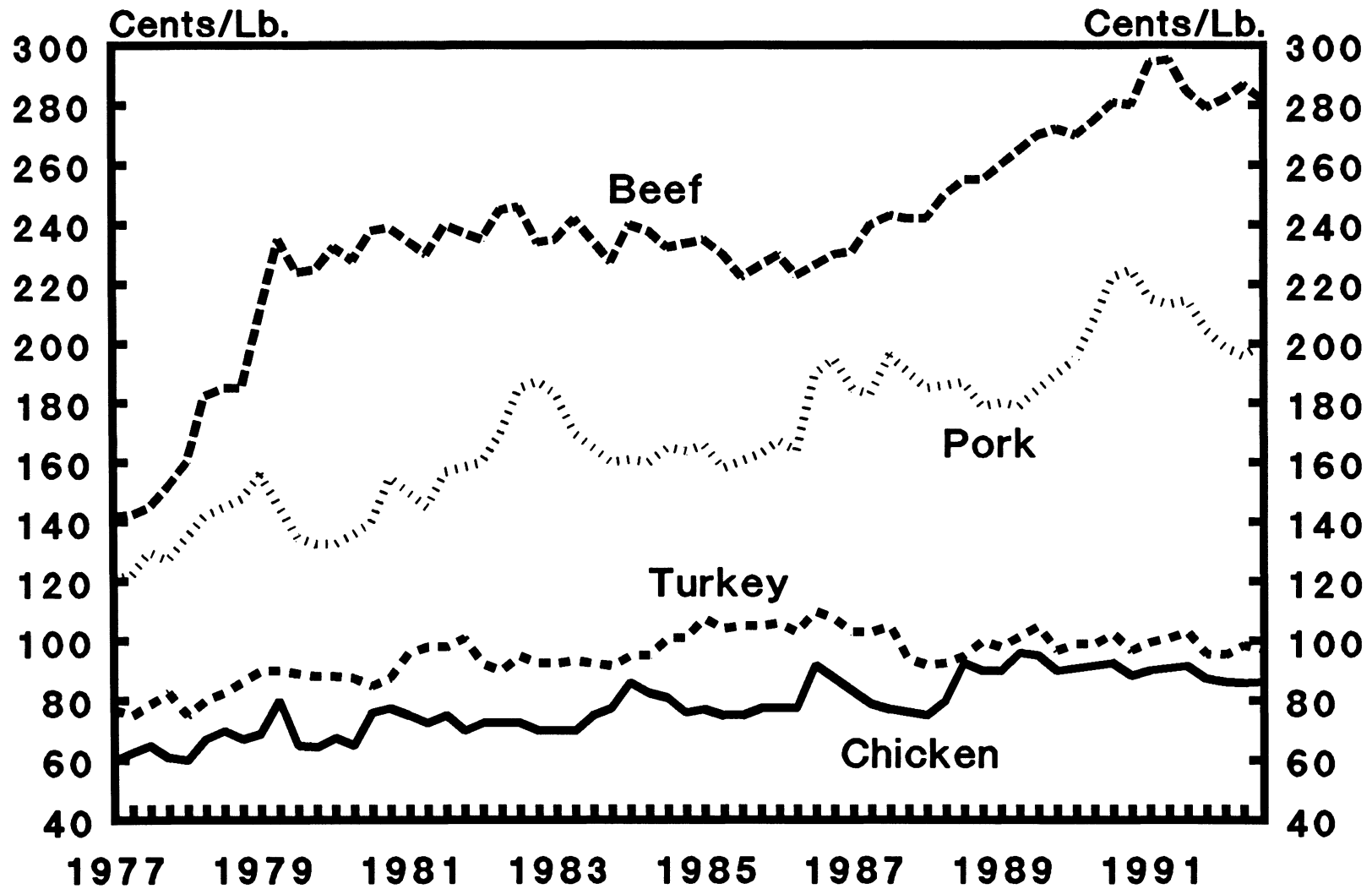
FEEDER STEER PRICE, OKLAHOMA

MEDIUM FRAME NO. 1, 600 - 700 LBS.



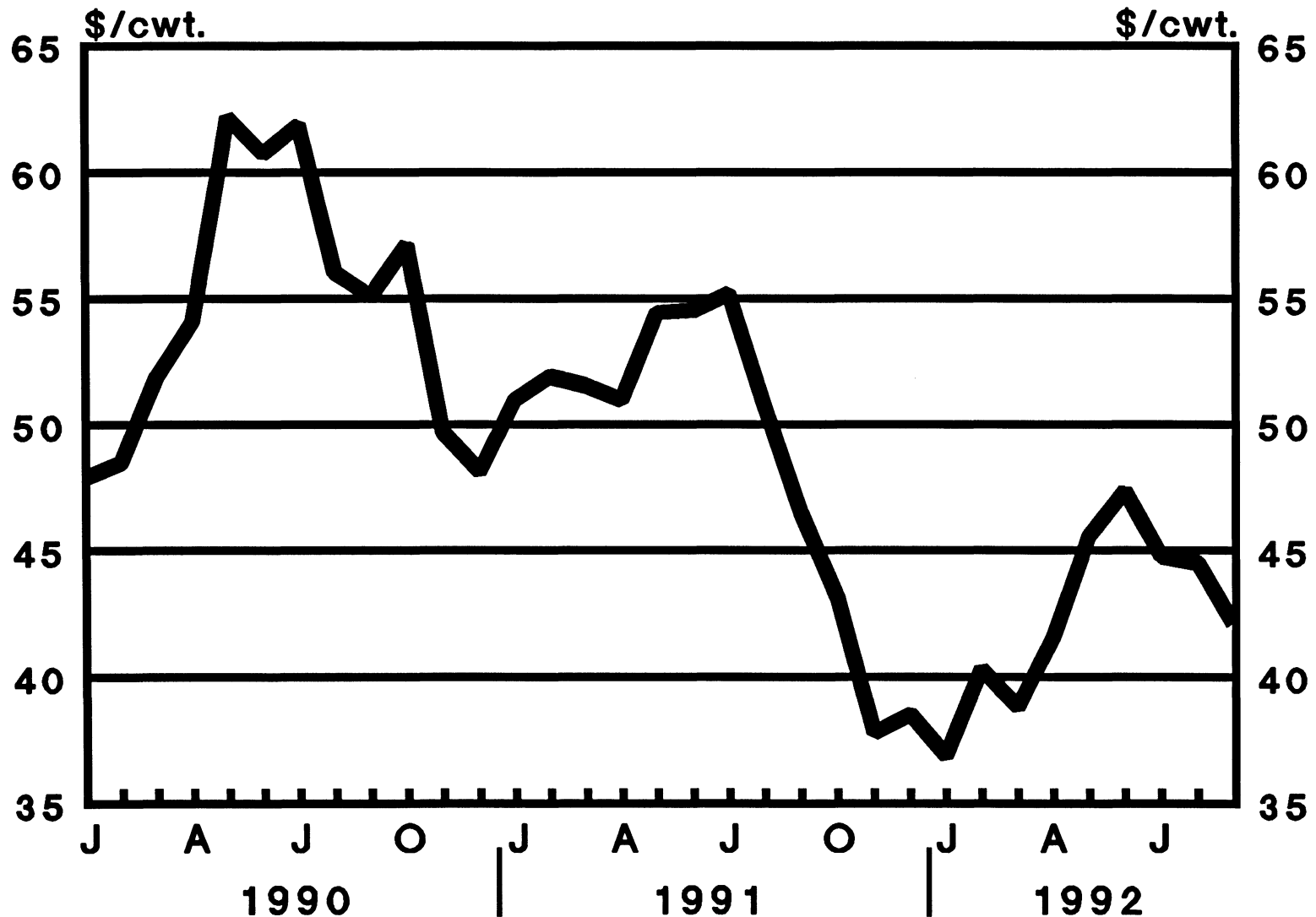
RETAIL MEAT PRICES

QUARTERLY AVERAGE



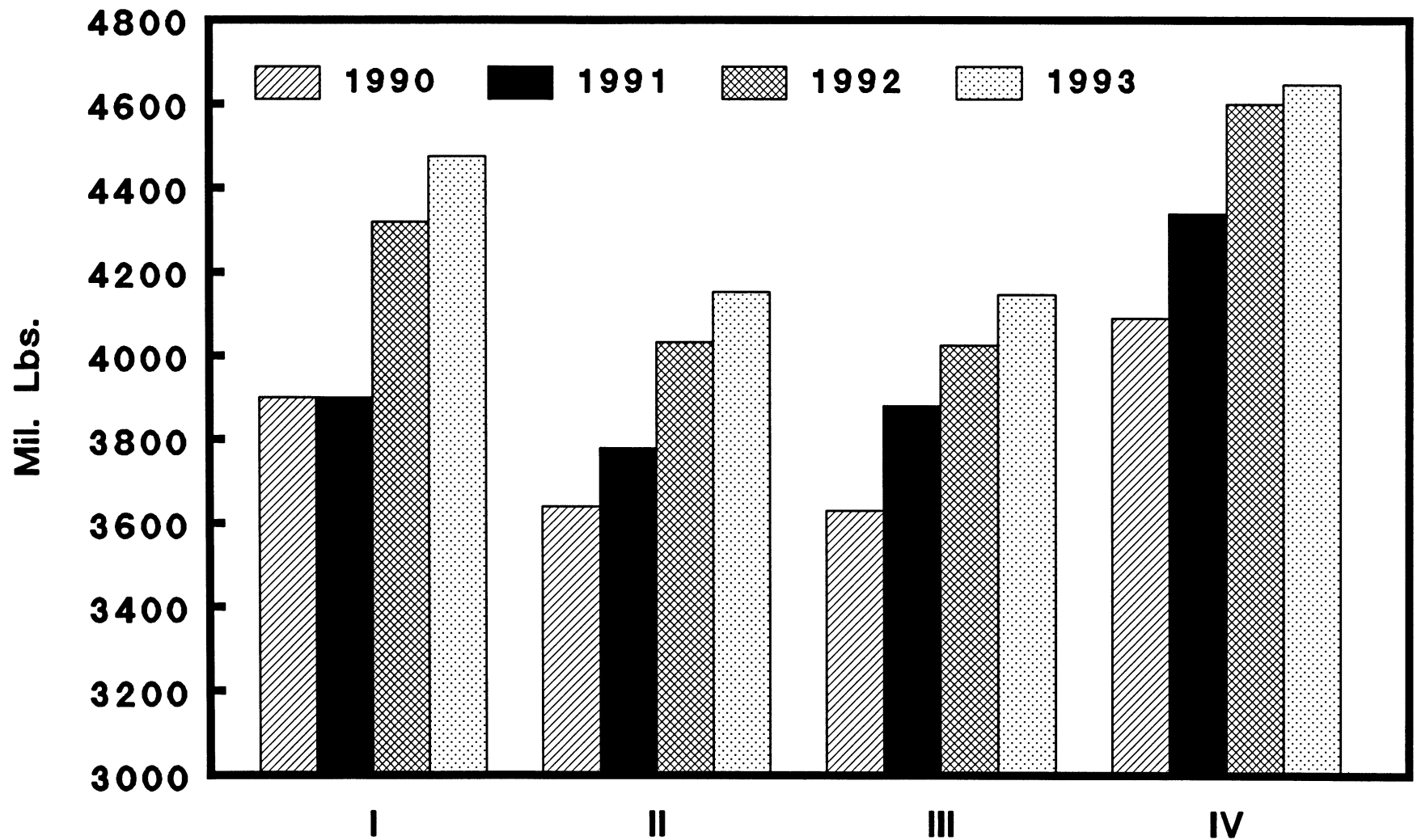
Last date: July - Sept. 1992

BARROW AND GILT PRICE 6 MARKET AVERAGE

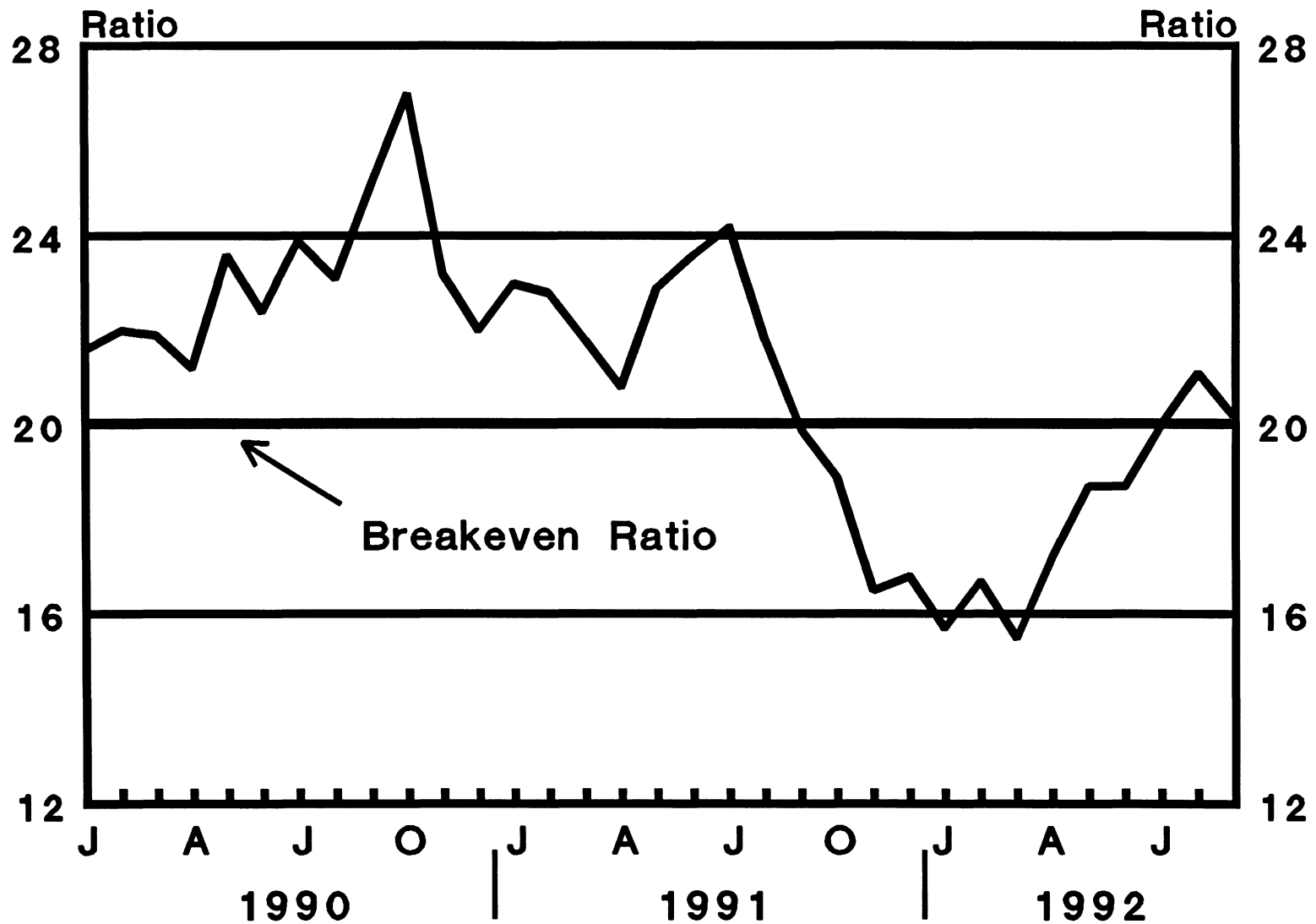


COMMERCIAL PORK PRODUCTION

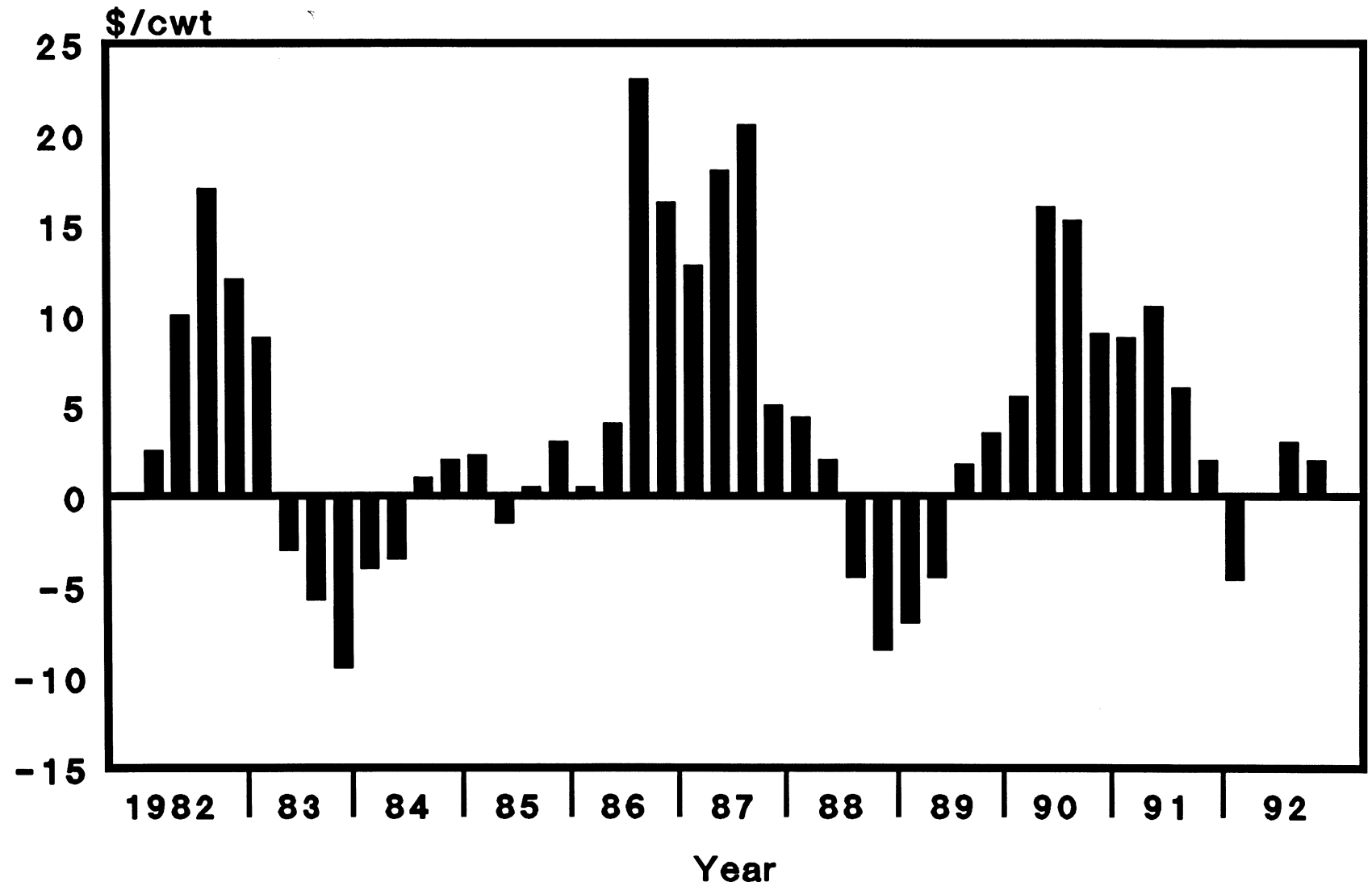
U.S. QUARTERLY



HOG-CORN PRICE RATIO, OMAHA



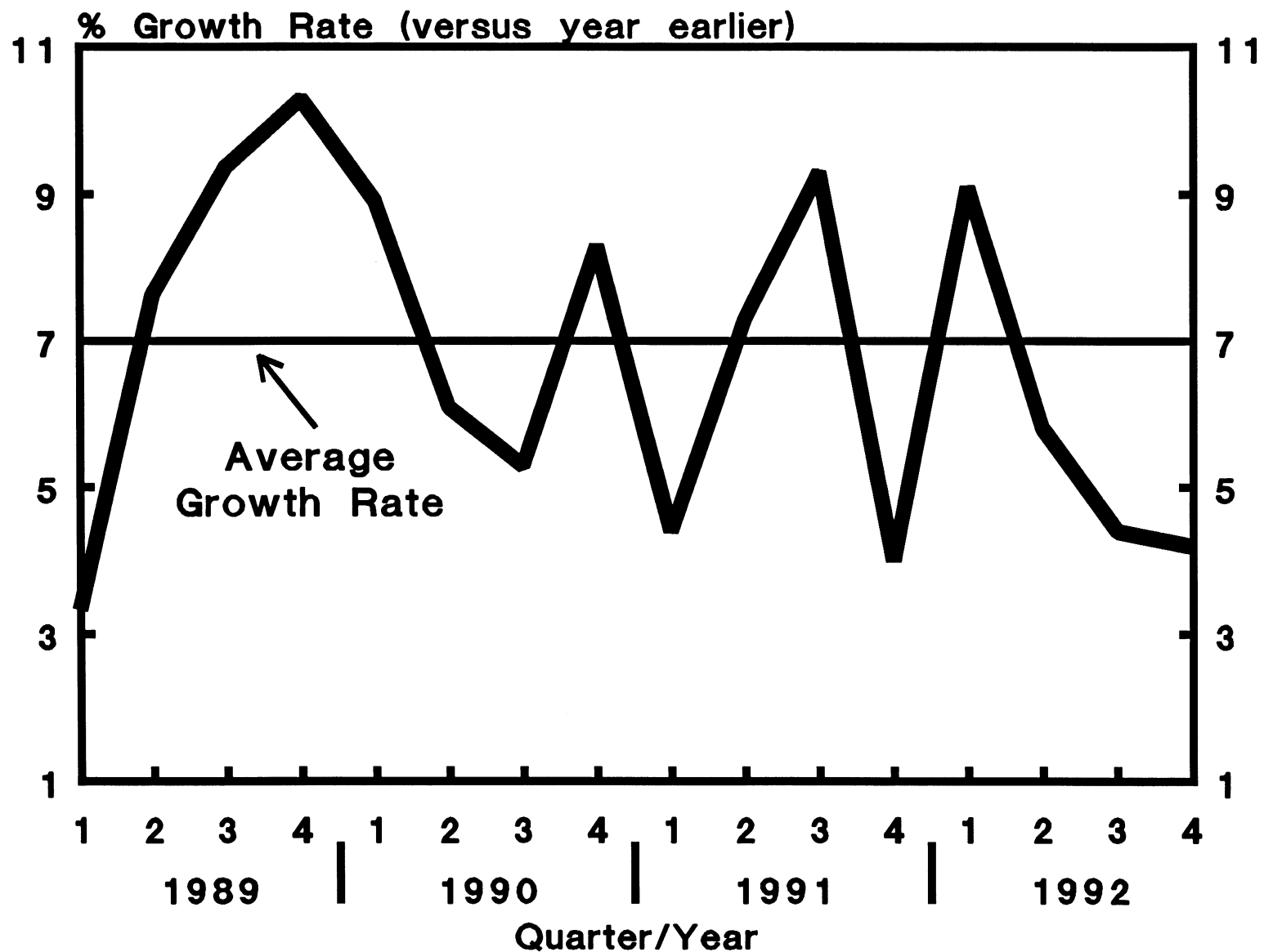
ESTIMATED FARROW-TO-FINISH RETURNS



FORECASTS

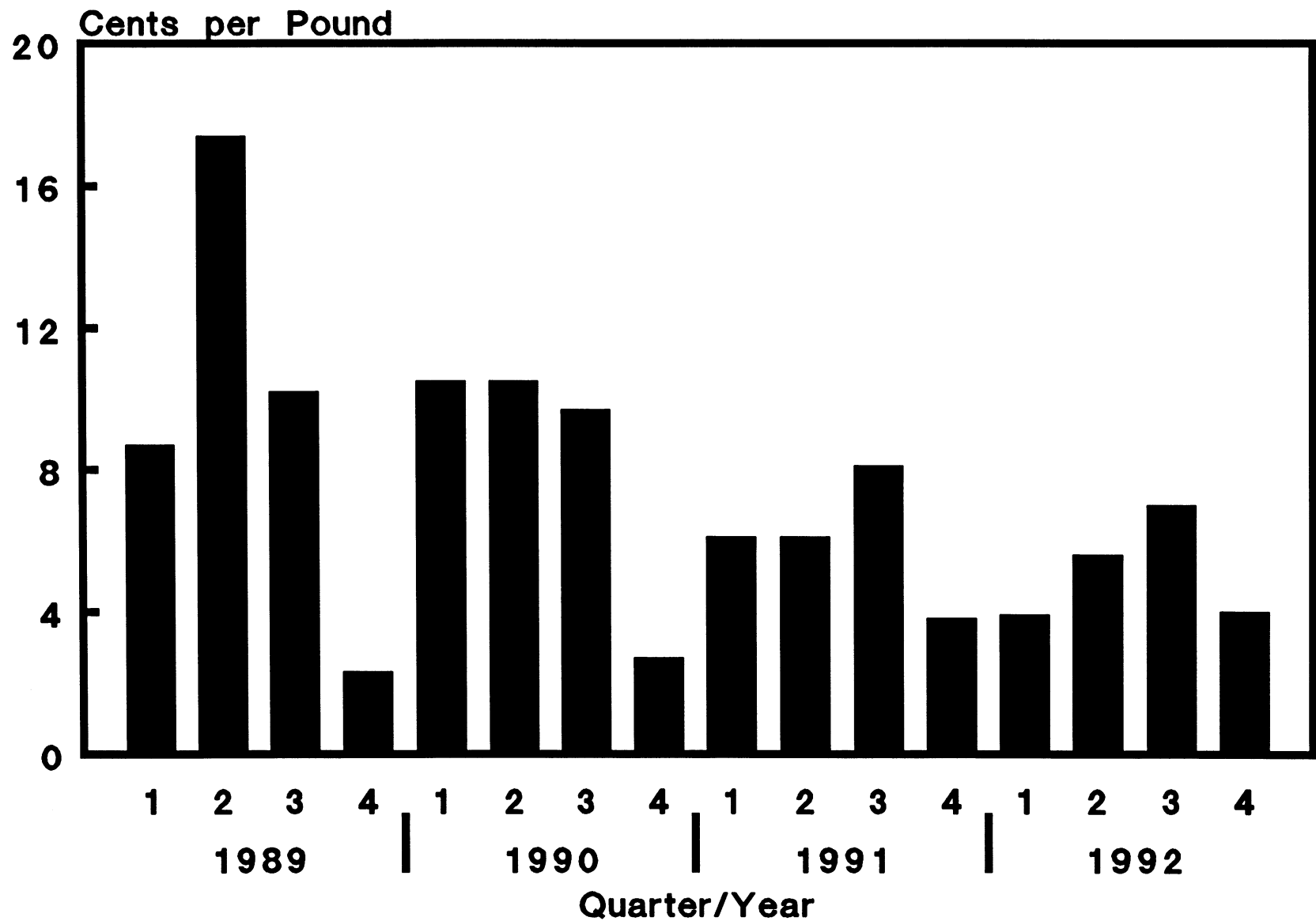
	Pork Production	Barrow & Gilt Price/cwt
1992		
IV	+ 4%	\$38-40
Year	+ 8%	\$41-42
1993		
I	+ 4%	\$37-40
II	+ 3%	\$39-42
III	+ 3%	\$38-41
IV	+ 1%	\$37-40
Year	+ 3%	\$38-41

GROWTH OF BROILER PRODUCTION IN THE U.S.



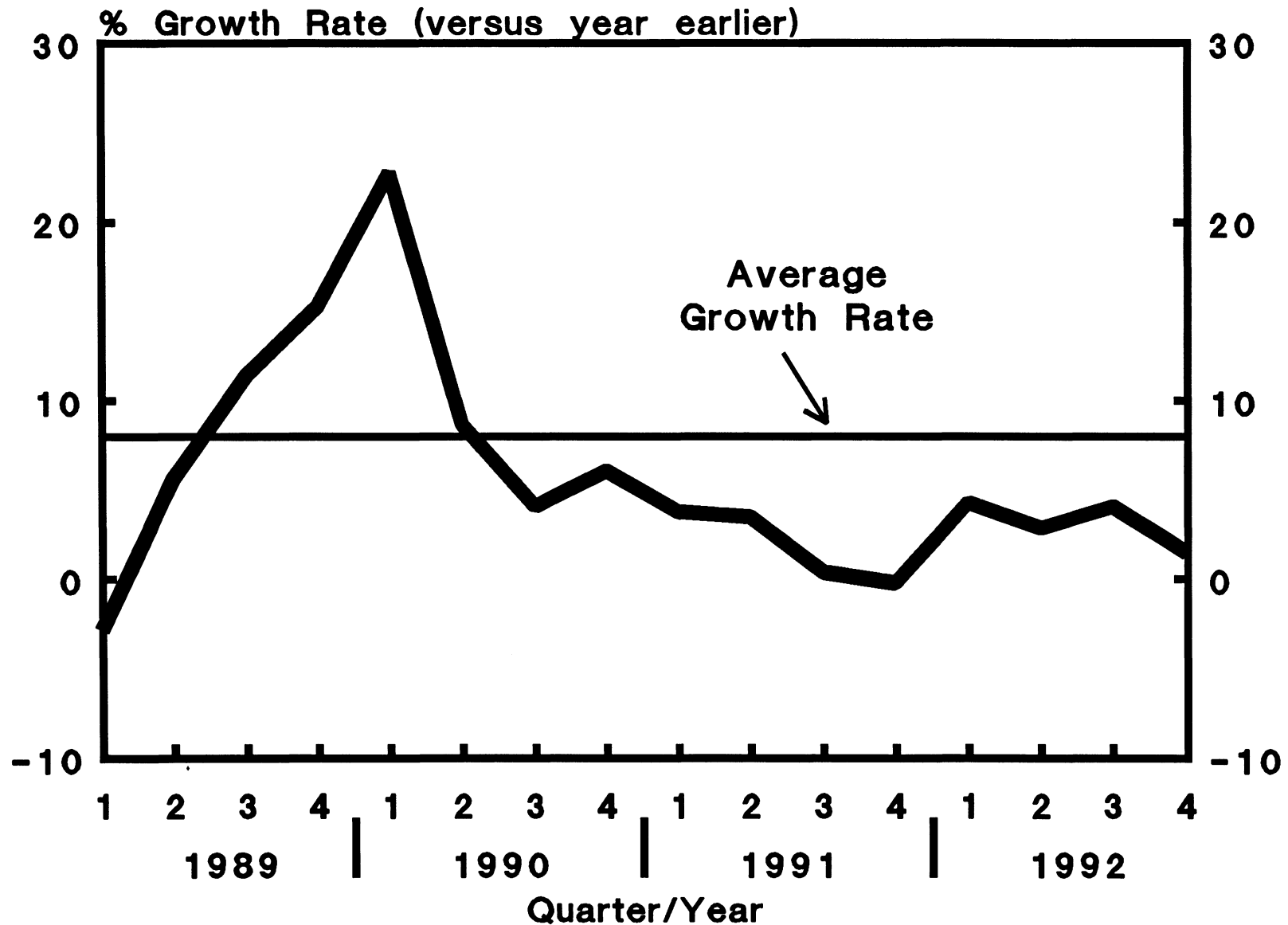
1992/3-4 Estimated

BROILER PRODUCTION RETURN



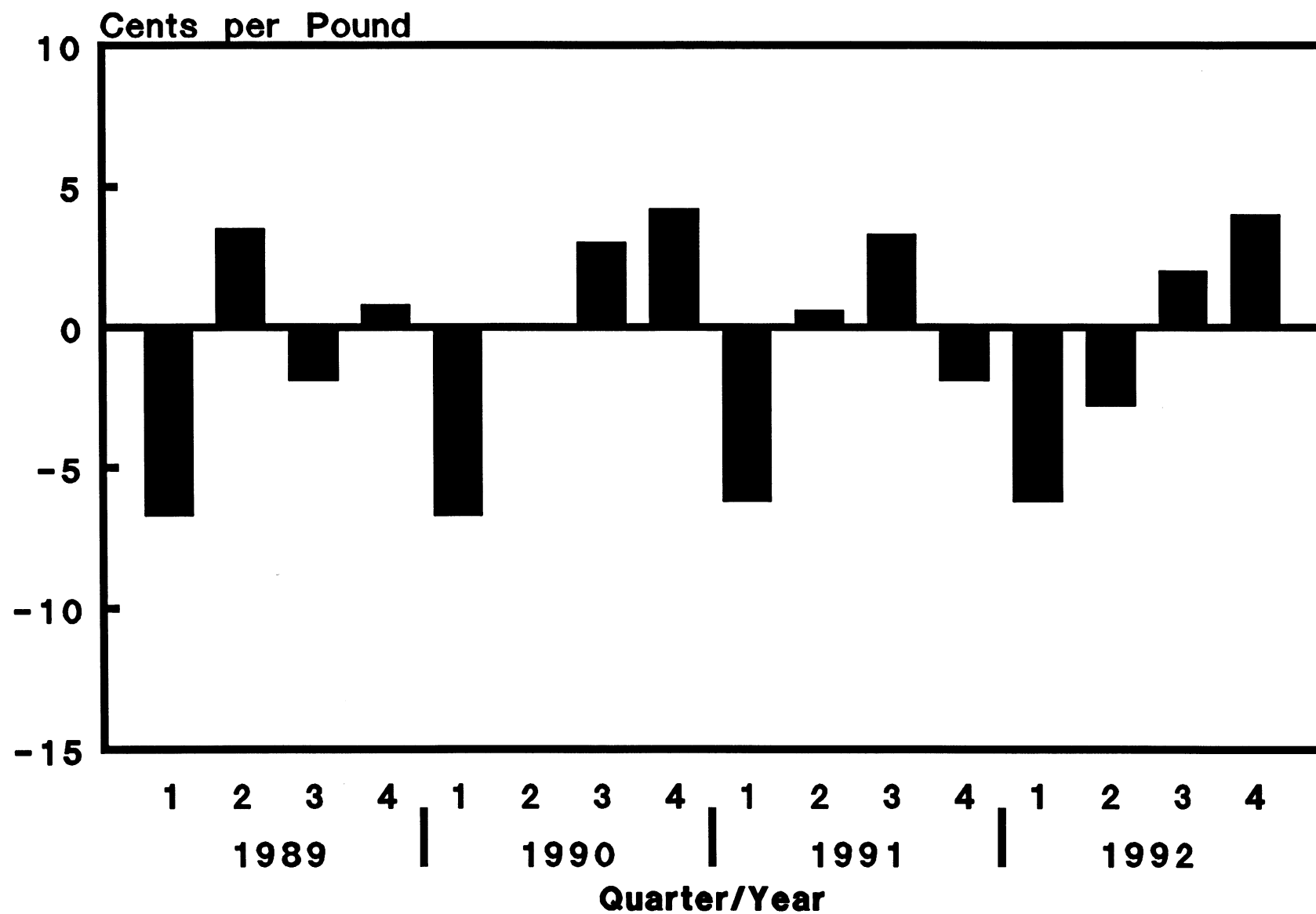
1992/3-4 Estimated

GROWTH OF TURKEY PRODUCTION IN THE U.S.



1992/3-4 Estimated

TURKEY PRODUCTION RETURN



1992/3-4 Estimated

U.S. SUPPLY FACTORS

<u>YEAR</u>	<u>NUMBER OF COWS</u> (Thousands)	<u>PRODUCTION PER COW</u> (Lbs.)
1986 *	10,773	13,285
1987 *	10,327	13,819
1988	10,262	14,145
1989	10,126	14,244
1990	10,127	14,646
1991 p	9,990	14,867
1992 f	9,840	15,350
1993 f	9,760	15,700

* Whole Herd Buyout in place last 9 months of 1986 and first 9 months of 1987.

p = preliminary, f = forecast

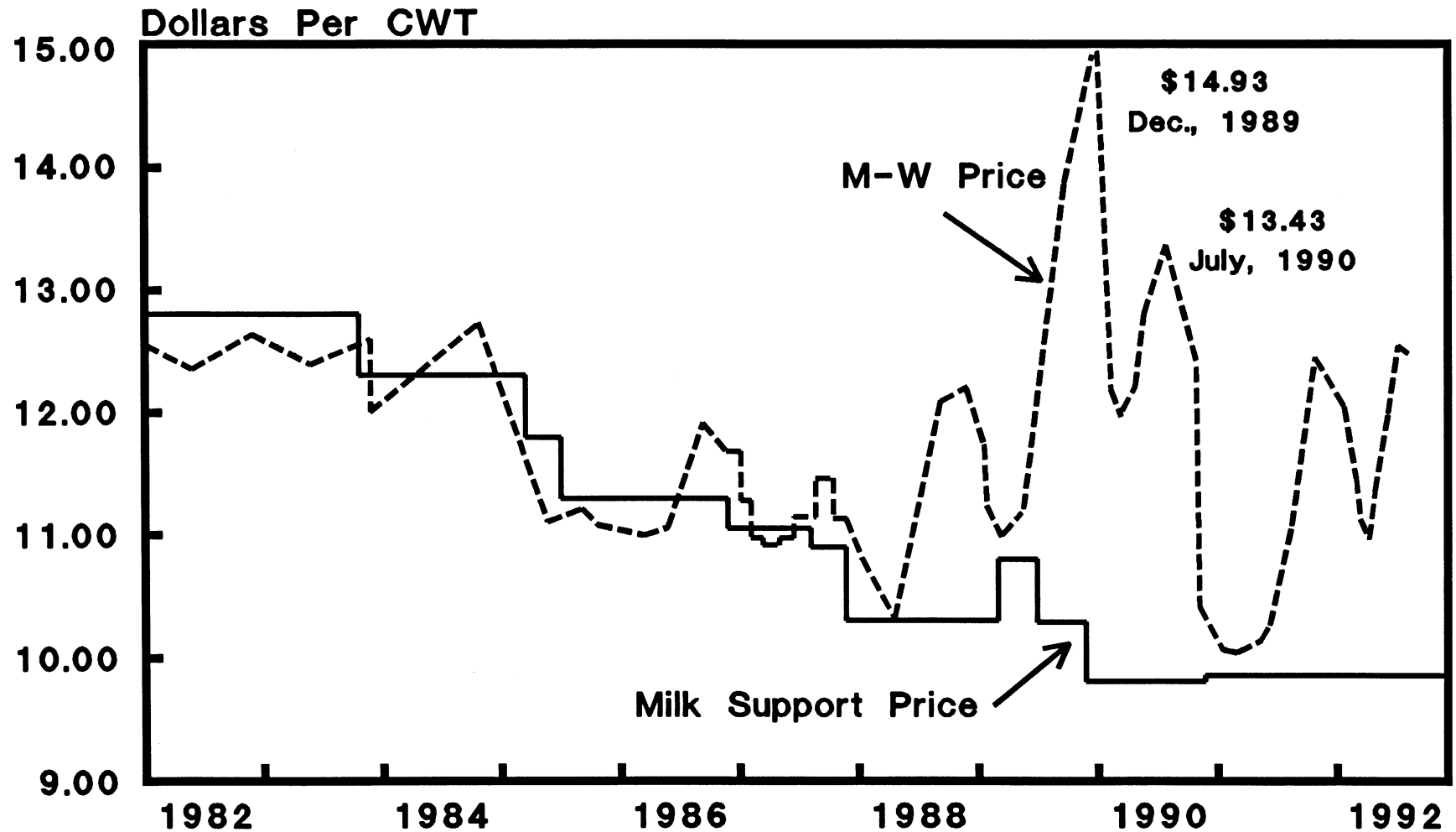
U.S. PRODUCTION AND DEMAND

<u>YEAR</u>	<u>MILK PRODUCTION</u>	<u>COMMERCIAL DEMAND</u>	<u>CCC PURCHASES</u>
----- (Billion Lbs.) -----			
1986	143.1	133.3	10.8
1987	142.7	135.6	6.8
1988	145.2	136.8	9.1
1989	144.2	135.4	9.4
1990	148.3	138.9	9.0
1991 p	148.5	139.4	10.4
1992 f	151.1	141.8	9.5
1993 f	152.3	143.1	9.7

p = preliminary, f = forecast

CCC purchases stated on milkfat basis

DAIRY SUPPORT PRICE AND MINNESOTA-WISCONSIN PRICE, 3.5% BF, 1982-1992



U.S. MILK-TO-FEED PRICE RATIO

